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Britain's Economic Recovery
Prospects for Prosperity

BY WILLIAM KOREN, JR.

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with the aid of the Research Staff of the Foreign Policy Association

RECOVERY—

FINANCE AND INDUSTRY

THE National Government's policies[1] have substantially contributed to Britain's economic improvement since the autumn of 1931. The decision not to return to the gold standard has produced no uncontrolled inflation forfeiting confidence in sterling and producing a disastrous rise in paper prices; it has been of fundamental benefit to domestic recovery by removing any need for high interest rates to protect the pound. The Bank of England's gold holdings have increased from £120 to £192.7 million. Skillful administration of the Exchange Equalization Account—Mr. Chamberlain's one financial experiment—has permitted preservation of a market in sterling relatively free as compared with that in other controlled currencies, and improvement of London's position as an international financial center through the acquisition of liquid assets.[2] Mr. Snowden laid the cornerstone for the restoration of financial confidence, and Neville Chamberlain's balanced budgets have maintained it, preparing the way for a rise in the price of British government securities,[3] conversion operations which have eased the national debt burden, lower new borrowing rates and lower taxation. The Treasury has enjoyed exceptionally easy conditions in financing its short-term needs. The tender rate on Treasury bills paralleled the Bank rate reductions of 1932 and has since remained below 1 per cent except at the year-end.[4]

Industrial Britain has reacted favorably to the National Government's policies of cheap money and a tariff. The index of industrial production based on 1924 rose from 93.3 per cent in 1932 to 110.5 per cent in 1934, a figure only 1.3 points below the index for 1929. Foreign trade figures have also tended upward since the low point of the industrial depression in the summer of 1932.[5] Increased industrial activity has been reflected by the rise of industrial profits, which first showed an improvement in the company reports issued in the second quarter of 1933. In 1934 each quarter's returns showed higher profits than those of the previous year. The following table indicates the trend of profits and their distribution to shareholders during the last four years:[6]

	1931	*1932*	*1933*	*1934*
Profits—% increase or decrease over previous year	—22.5	—18.1	+0.5	+16.6
Average % paid on preference capital	5.2	4.2	4.6	4.8
Average % paid on ordinary capital	7.2	5.9	5.8	6.5

1. Cf. William Koren, Jr., "Britain's Economic Recovery: Policies of the National Government," *Foreign Policy Reports*, July 31, 1935.

2. Cf. N. F. Hall, "The British Exchange Equalization Account," *The Economist, Special Supplement*, May 5, 1934. According to the Chancellor's last budget speech, the Account has been run at a profit during the last two financial years. *Parliamentary Debates, House of Commons, Official Reports*, April 15, 1935, vol. 300, p. 1619.

3. Cf. graph, p. 143. The yield basis on British government stocks approximated 3 per cent at the end of 1934. The one major government issue of 1934, a 3 per cent funding loan of £150 million issued in April at 98, was quoted at the end of December at 104½. *The Economist*, January 5, 1935.

4. At the end of January 1935 the tender rate reached an all-time low of 3s.10.91d. per £100; it has since hardened to about 10 shillings, or ½ per cent.

5. *Board of Trade Journal*, March 28, 1935. Cf. graphs, p. 152.

6. *The Economist*, January 19, 1935. Because of the smaller profits of the preceding year, the 16.6 per cent increase for 1934 does not equal more than half of the 19ᴈ₄ decrease in absolute sums.

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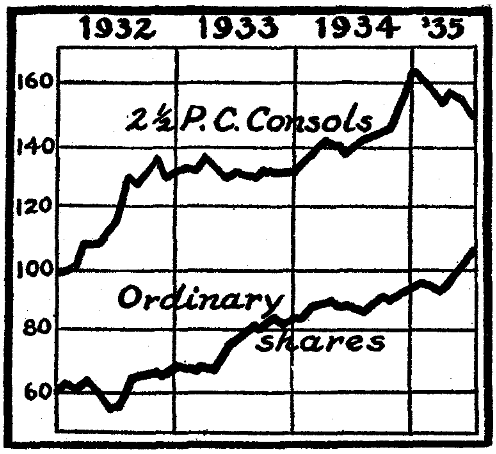
The consequent rise in the incomes of the wealthier classes has largely contributed to the buoyancy of income and surtax receipts, which for 1934-1935 were only £1.5 million below those of the previous year in spite of reduction of the basic rate from 25 to 22½ per cent. Prices on the Stock Exchange have risen with few interruptions since the spring of 1933.



COURSE OF SECURITY VALUES AND INDUSTRIAL ACTIVITY, 1932-35

(*Consols* curve based on the Actuaries Index. *Ordinary Shares* curve based on Financial News index of thirty industrials. End of 1928=100 in both cases.) Taken from *The Economist*, June 29, 1935.

Industrial workers have shared in Britain's recovery during the National Government's tenure of office. Registered unemployment in the United Kingdom has fallen from the peak figure of 2,979,425 in January 1933 to 2,068,152 in June 1935, and the number of employed insured workers in Great Britain has increased from 9.33 million in September 1931 to 10.36 million.[8] Wage disputes were negligible in 1933, and in 1934 were responsible for the smallest number of days lost from work on record.[9] While money wages have risen slightly to 94.5 per cent of the 1925-29 level, the cost of living index based on July 1914 fell from 147 in January 1932 to 140 on June 1, 1935. Unemployment also has decreased since 1933, and real wages for workers as a whole, as well as for the individual employed worker, are estimated to have risen.[10]

8. *Ministry of Labour Gazette*, October 1931, February 1933, July 1935. The June 1935 unemployment figures of 2,000,110 for Great Britain are the lowest since July 1930; the total of employed workers passes the previous all-time record of September 1929.

9. Cf. Mr. Chamberlain's budget speech, cited, p. 1615.

10. *Ministry of Labour Gazette*, June 1935; *The Economist*, March 9, 1935, p. 523.

CONCENTRATION ON THE HOME MARKET

The combined influence of the National Government's ban on foreign loans and its protective tariff has served to concentrate this recovery in industries producing for the home market. Retail trades such as breweries, manufacturers of foodstuffs, boots and shoes, and providers of entertainment in the form of gramophones, radios, and cinema theaters have especially prospered. Such modern industries as rayon and automobile manufacture have attained record production figures. Electric light and power companies have benefited not only from the increased use of electric power in factories but also because of the electrification of private dwellings and working class tenements. Lower costs, and particularly the lower interest rates sponsored by the National Government, have made it possible to meet the demand for private houses among the middle class; the consequent activity in dwelling house building has been largely responsible for the exceptional boom in the building industry.[11] Unemployment in the building and allied trades has steadily decreased; the fall from March 1933 to March 1934 was the third largest of that in any trade group, and for the twelve months ending March 1935 was the largest.[12] The particular prosperity of certain industries producing for home consumption is shown by the following table:[13]

INDUSTRIAL PROFITS

	Net profits after debenture payments (£ millions)	*% paid on preference capital*	*% paid on ordinary capital*
All groups			
1932-33 (1949 reports)	137.08	4.5	5.6
1933-34 (1960 reports)	159.60	4.6	6.1
1934-35 (2072 reports)	192.97	5.0	7.1
Breweries			
1932-33 (102 reports)	12.70	5.5	12.0
1933-34 (97 reports)	12.57	5.1	12.0
1934-35 (104 reports)	16.14	5.2	13.6
Electric light & power			
1932-33 (48 reports)	8.96	5.2	6.9
1933-34 (43 reports)	9.00	5.3	6.9
1934-35 (44 reports)	10.26	5.1	7.6
Motor, cycle & aviation			
1932-33 (34 reports)	.17	3.5	3.7
1933-34 (35 reports)	3.49	5.5	4.1
1934-35 (41 reports)	5.80	5.3	7.7
Shops and stores			
1932-33 (72 reports)	11.19	6.0	12.7
1933-34 (73 reports)	12.91	5.3	12.1
1934-35 (88 reports)	13.92	5.6	14.1

Building materials			
1934-35 (58 reports)	5.78	5.6	10.6
Food, confectionery and drink			
1934-35 (75 reports)	7.41	6.4	10.2
Miscellaneous*			
1932-33 (637 reports)	67.54	5.6	8.2
1933-34 (625 reports)	70.83	5.7	8.3
1934-35 (268 reports)	33.35	6.6	7.9

*For 1932-33 and 1933-34 includes foodstuffs and building materials.

The outstanding recovery of the iron and steel trade reflects Britain's general improvement as shown in building activity, the automobile boom and railway replacement programs, as well as the slight revival in shipbuilding and renewed activity in the armaments trade. The high iron and steel import duties have contributed both to the domestic boom and to the recent favorable agreement with the International Cartel.[14] The index of steel production has steadily increased since the middle of 1932; total production of pig iron, steel ingots and castings, and finished steel products all improved in 1933 over 1932, and again in 1934. Imports were drastically curtailed by the tariff; although imports of semi-finished steel products have increased since the summer of 1933 in response to the greater demand of the British finishing trades, they have formed a smaller percentage of the final products. While absolute production and trade have not reached the pre-crisis figures, Britain's share of the world's production has increased from 7.8 per cent for pig iron and 8.1 per cent for steel in 1929 to 9.7 and 11 per cent respectively. Although a considerable portion of the steel companies' profits have been eaten up by dividend arrears, earnings have improved in the last years.[15]

THE BRITISH IRON AND STEEL TRADE

In 1,000 tons	*1929*	*1932*	*1933*	*1934*
Production of pig iron	7,589.3	3,574.0	4,136.0	5,978.5
Production of steel	9,636.2	5,256.8	7,024.0	8,859.7
Imports of iron and steel	2,822.3	1,593.6	971.4	1,366.7
Exports of iron and steel	4,379.5	1,887.3	1,921.8	2,253.5
Imported semi-products as % of British production of finished products	13.0	14.1	6.0	7.0*
Index of apparent British consumption of finished steel	164.0	100.0	119.0	137.0*

*On basis of January-August figures. Source: *The Economist*, January 20 and December 1, 1934; January 19, 1935.

—BUT NOT PROSPERITY

ADVERSE EFFECTS OF CHEAP MONEY

While there has been a definite improvement in Britain's economic status, it cannot be said to have restored national prosperity; certain important elements remain positively depressed, encumbering Great Britain with idle money, land and men. While the restoration of financial confidence and the consequent cheap money régime have created the conditions for renewed business activity, they have failed to produce major industrial expansion. Only about £100 million, or 4 per cent of the total industrial fixed interest-bearing securities outstanding, moreover, have been converted to lower rates.[16] The more prosperous branches of industry have been able to finance the first stages of recovery largely from their own amply liquid resources, and later to pay back previous bank loans.[17] Although low interest rates have prevailed since the middle of 1932, a revival of industrial borrowing did not occur until 1934 and 1935.[18]

11. *The Economist*, June 1, 1935. Each half-year, beginning October 1932-March 1933, has shown an increase over the previous six months in total houses built. In every case this has been due largely to private building without state assistance, which accounted for 149,085 of the 167,379 houses built in the year ending March 31, 1935.

12. *Ibid.; The Economist*, April 7, 1934 and April 13, 1935. By contrast, the high figure of unemployment in public works contracting—over 40 per cent of the insured workers—has shown almost no decrease.

13. *Ibid.*, July 22, 1933; July 14, 1934; July 13, 1935. The figures are for the twelve months ending June 30.

14. *The Economist*, December 1, 1934 and June 15, 1935. The tariff has adversely affected re-rolling mills dependent on cheap foreign semi-products.

15. The profits of certain major companies have risen as follows:

Total profits	*Last report*	*Previous report*
Richard Thomas	£635,000	£474,743
United Steel	1,191,665	506,034
Baldwins	502,642	356,457
Colville's	589,439	329,657
Vickers*	613,261	543,635
Vickers-Armstrong*	375,534	206,414

*Net profits.

16. *The Economist*, March 2, 1935. Of the unconverted 96 per cent a large slice was either originally issued at the low pre-war rate or is not callable at this time.

17. *Ibid.*, November 24, 1934; Herbert Heaton, *The British Way to Recovery* (Minneapolis, University of Minnesota Press, 1934), pp. 55-57.

18. *The Economist*, December 29, 1934. The limited value of low interest rates was illustrated by the poor public response early in 1935 to British municipal borrowing at 2¾ per cent. Similar trustee issues were then banned for four months; the

NEW CAPITAL ISSUES ON THE LONDON STOCK EXCHANGE[19]
(*in £ million*)

Borrowers	*1929*	*1931*	*1932*	*1933*	*1934*	*Jan.-June 1935*
Government, United Kingdom	65.4	10.7	102.7	150.8	44.1	2.5
Other Empire	26.4	30.6	23.8	24.2	8.5	Nil
Foreign	3.7	1.7	Nil	5.3	Nil	Nil
Corporations (municipalities, public boards, etc.), United Kingdom, Other Empire and Foreign	12.1	8.0	28.9[a]	24.6[b]	36.1[b]	15.4[b]
Foreign Railroads	7.8	2.9	Nil	Nil	Nil	Nil
Mines, finance and exploration	41.5	12.2	2.7	6.1	23.9	7.1
Rubber and oil	6.4	.2	.8	.2	1.9	.2
Balance (mainly home industry)	122.0	35.9	29.9	33.7	54.7	40.1
Total	285.2	102.1	188.9	244.8	169.1	65.3

a. Includes £117,200 for "Other Empire," none for "Foreign." b. Includes none for either "Other Empire" or "Foreign."

The low interest rates initiated by the National Government, its economy measures and its partial embargo on foreign loans have failed to stimulate industrial borrowing on a large scale. The failure of trade to recover and the prevalence of low interest rates have harmed the financial concerns on both the short- and long-term money markets. The supply of commercial bills was estimated to have fallen from £240 millions in 1929 to £100 millions in late 1934. This continued decline was rendered more serious in 1934 by the decrease of £147.1 millions in the supply of Treasury bills resulting from the surplus of the 1933-34 financial year and the increased floating assets of government departments.[20] The consequent surplus of money seeking investment was reflected in the increase of the London Clearing Banks' cash and deposits at the Bank of England and in the lowered tender rates for Treasury bills and other rates on the short-term money market. To recoup themselves, the Clearing Banks maintained in common a 1 per cent rate for loans on the security of Treasury bills. Since the discount and tender rates were below that figure, bill brokers were forced to work in part at a loss.[21] Funds which could not be profitably employed on the short-term market have spilled over into the long-term market, to contribute to the rise in stock exchange quotations.[22] In consequence of falling trade, advances of the joint-stock banks fell until 1934, while deposits and investments have continued to rise. But the stock exchange boom reduced the yield to the banks on their investments from 4¾ per cent in January 1932 to 3 per cent by July 1934. Combined with even sharper falls in discount and call money rates, the lower rates receivable have forced the banks to decrease their deposit rates, close branches and reduce salaries.[23]

COMBINED STATEMENT OF THE "BIG FIVE" JOINT-STOCK BANKS[24]

	Liabilities (£ millions)			*Assets* (£ millions)				
	Capital & Reserve	*Deposits*	*Acceptances*	*Cash*	*Call Money*	*Discounts*	*Investments*	*Advances*
1931	109.4	1,568.6	93.9	240.1	102.5	211.4	234.3	811.0
1932	109.9	1,777.9	82.4	254.0	109.8	355.4	398.9	692.5
1933	109.9	1,744.9	103.8	259.6	106.8	270.0	481.9	660.7
1934	112.2	1,779.0	112.7	257.9	138.3	232.6	505.3	679.9

next issues bore interest at 3 per cent. Cf. *The Times* (London), June 6, 1935.

19. *The Economist*, December 30, 1933; December 29, 1934; June 29, 1935.

20. Cf. *ibid.*, October 6, and December 29, 1934.

21. When the agreement broke down in October 1934, the loan rate dropped to ½ per cent.

22. Cf. graph, p. 143. The sharp rise in the price of industrial ordinary shares in the second half of 1934 was partly attributable to spill-over of funds from the booming market in gilt-edged fixed interest-bearing securities. Cf. *The Economist*, January 5, 1934.

23. Cf. *ibid.*, *Banking Supplement*, October 13, 1934; *New Statesman and Nation*, January 12, 1935. Improvement of the banks' position in 1934, in spite of the low interest rates, is attributed to the recovery of doubtful debts. *The Economist*, *Banking Supplement*, May 18, 1935.

24. *The Economist*, January 28, 1933; January 27, 1934; January 26, 1935. Since new government borrowings have been largely for establishing the Exchange Equalization Account and for funding purposes, the banks have not had to play an important part in British recovery by heavy purchases of government securities. Most of the banks do not publish separately their holdings of Treasury bills and government securities, but the fall in discounts and rise in investments from 1933 to 1934 may be taken as roughly representing a shift from short- to long-dated government securities.

FAILURE OF AGRICULTURAL PROTECTION

The National Government's piecemeal protection and reorganization of agriculture[24a] has not substantially increased the profitability of British farming. Import duties and quotas have caused a remarkable spurt in the British canning industry, a sharp increase in bacon pig production, and the assurance of approximate national self-sufficiency in many fruits and vegetables. In consequence of the Wheat Act and the beet sugar subsidy, the acreage under wheat rose 28.8 per cent from 1932 to 1933 and another 6 per cent the next year, while that under beets rose 42.7 and 8.9 per cent respectively. But these gains have been balanced by losses in other directions. The marked drop in acreage under grains other than wheat has produced a slight decrease in total arable land; the increase in bacon pigs has been offset by the smaller number of porkers, leaving the total pig population almost unchanged. There was no marked development from 1932 to 1933 in the number of cattle or sheep, and permanent grass acreage remained almost constant.[25]

Although intermittent adjustments have improved the wages or hours of 300,000 farm laborers, agricultural employment in England and Wales, after rising from 697,481 in 1932 to 715,546 in 1933, fell again in 1934 to 10,000 below the 1932 figure. The rise in agricultural unemployment from zero in 1926 to 7½ per cent at the beginning of 1935 has led the Unemployment Insurance Statutory Committee to submit a scheme for the insurance of agricultural laborers, hitherto excluded from all unemployment insurance.[26] Although Major Elliot's measures may have saved British agriculture from collapse, they have not enabled it to match the pace of industrial recovery or achieve the rise in prices which was the primary aim of the Minister's efforts.

BRITISH WHOLESALE PRICES[27]

	1931 Sept. 18	*1933 Jan.*	*1933 July*	*1934 Jan.*	*1934 July*	*1935 Jan.*
Cereals and meat	64.5	64.4	66.3	64.7	70.4	69.8
Other foods	62.2	59.6	58.5	56.3	58.3	60.1
Complete index[a]	60.4	61.3	65.6	64.3	65.7	66.2

a. Includes cereals and meat, other foods, textiles, minerals and miscellaneous.

Expansion of home production as a consequence of the import restrictions has been limited because the exemptions granted the Colonies and Dominions by the Import Duties and Ottawa Agreements Acts have resulted in greater imports from the Empire in all categories except eggs.[28] Up to 1934 the coexistence of a drop in total supplies and prices pointed to a drastic decrease of demand in consequence of a general decline in consumers' spending power.[29] Yet the marketing schemes of 1933 and 1934 made no attempt to lower prices to the consumer by rationalizing the work of the wholesale distributors. In the case of milk, a temporary rise in price reacted to the detriment of the producers by causing a contraction of demand. The National Government's meat quotas and subsidy do not take into consideration the fact that the cheaper Argentine or Australian beef and the higher priced English product are to a large degree non-competing. In general the prosperity of the British farmer appears to depend less on the restricted importation of cheaper foreign foodstuffs than on the expansion of the purchasing power of the British public.[30] But the Government's announced intention of imitating the Wheat Act by levies on imports of bacon and beef, which will be paid over to the British producer, means the extension of subsidies which do not appear in the national accounts and whose cost is borne by the poorer consumers rather than the richer taxpayers.[31]

DEPRESSION IN EXPORTING INDUSTRIES

In the post-war years Britain's exporting industries have been the most depressed section of the national economic structure;[32] they suffered most in the first years of the world depression and have

24a. Koren, "Britain's Economic Recovery: Policies of the National Government," cited, pp. 136-39.

25. Cf. *The Economist*, August 25, 1934, citing the annual June census of the Ministry of Agriculture. Wheat production now exceeds the total at which full deficiency payments are allowed to British farmers.

26. "Report of the Unemployment Insurance Statutory Committee," Cmd. 4786 (London, H. M. Stationery Office, 1935); cf. *New York Times*, January 24, 1935. The government has accepted the principles of the Report but has indefinitely postponed the introduction of a bill on the subject. Cf. statement of the Minister of Labour, *Parliamentary Debates, House of Commons, Official Reports*, May 16, 1935, vol. 301, p. 1856.

27. *The Economist Index*, based on the 1927 average.

28. K. A. H. Murray and Ruth L. Cohen, *The Planning of Britain's Food Imports* (Oxford, University of Oxford Agricultural Economics Research Institute, 1934) and *Supplement* (1935). The proportion of total food imports from Empire sources had increased from 38 per cent in 1927-29 and 1931 to 50 per cent in 1933.

29. *Ibid.*, p. 93.

30. *Ibid.*

31. The cost of the wheat levy to bread eaters is computed at £7,179,748 for 1933-1934. *The Economist*, May 18, 1935.

32. Cf. graphs, p. 152. There were no new issues on the Stock Exchange for importers, docks, harbors and shipping in 1932, 1933 or 1934.

since made the smallest recovery. In the midst of world depression and intensified economic nationalism, neither the Ottawa Agreements nor the trade agreements with foreign countries negotiated by the Board of Trade have brought substantial gains to Great Britain. Trade with the Empire was less disrupted by the world depression than trade with foreign countries. During 1932 the departure from gold of Britain, India, the Crown Colonies, Australia and New Zealand, and the imperial preference of the Import Duties Act had already shifted imports to Empire sources. In the first year of the Ottawa Agreements this movement slowed down, yet the ratio of Empire to total imports increased considerably more than the ratio of Empire to total exports. For 1933 sales to foreign countries outside Europe showed a greater increase over 1932, both in quantity and percentage, than those to the Empire, despite greater exports to South Africa, which had begun to recover following its departure from gold in December 1932. The more rapid increase of exports to the Empire in 1934 is partly traceable to the delayed changes in Dominion tariffs following Ottawa, but even more to recovery in South Africa and other Dominions.

Of Mr. Runciman's trade agreements, those with Scandinavia and the Argentine appear to have been the most successful. But except in the case of coal exports, the improved Scandinavian market for British goods is partly attributable to the "Buy British" campaigns in those countries and to the linking of their currencies with sterling. In 1932 the smallest decrease of British exports was to members of the "sterling bloc"; sales to them have recovered more than those to gold standard countries. The tendencies of countries in the sterling bloc to trade with Britain, and of those in the gold bloc to defend their currencies by cutting down imports, have thus apparently affected Britain's exports more than the trade agreements.

BRITISH TRADE WITH THE EMPIRE* AS A PERCENTAGE OF TOTAL TRADE[33]

	1929	*1931*	*1932*	*1933*	*1934*
Imports	25.7	24.5	31.6	34.3	34.7
Exports	39.5	35.9	38.3	39.3	41.9

*Excluding the Irish Free State.

BRITISH EXPORTS[34]
(in £ million)

	1929	*1932*	*1933*	*1934*
All countries	729.3	365.0	367.9	396.1
British Empire				
Irish Free State	36.1	25.8	19.0	19.5
Union of South Africa	32.5	18.1	23.3	30.2
Other	255.9	121.6	121.2	135.9
Trade Agreement countries				
Sterling bloc*	35.6	25.7	28.4	33.4
Gold bloc**	92.4	46.1	47.2	45.1
U.S.S.R.	3.7	9.2	3.3	3.7
Argentina	29.1	10.7	13.1	14.7

*Denmark, Sweden, Norway, Estonia, Finland and Iceland.
**France, Germany, The Netherlands, Latvia and Lithuania.

In spite of the increased volume of exports during the last two years,[35] expansion of production in the exporting industries has not equalled that in home industries, and unemployment remains particularly severe in those producing largely for overseas markets.

PRODUCTION AND UNEMPLOYMENT BY INDUSTRIES[36]

	Production Index[a] *(based on 1924)*				*Unemployment % of Insured Workers June 24, 1935*	
	1931	*1932*	*1933*	*1934*		
All industries	93.7	93.3	98.6	110.5	All industries	15.5
Mines and quarries	81.6	77.5	76.9	82.8	Coal mining	30.6
Iron and steel	65.9	66.2	82.2	102.6	Iron and steel	22.5
Engineering and shipbuilding	94.9	88.6	96.0	112.1	Engineering	12.5
					Shipbuilding	42.6
Textiles	77.0	85.1	89.8	92.0	Cotton	21.0
					Wool	14.4

a. The new index, based on 1930, shows that in the first quarter of 1935, compared with the corresponding quarter of 1934, the index for all industries rose from 105.5 to 112.8. Iron and steel and textiles showed much smaller gains; mines and quarries, a small drop. *Board of Trade Journal,* May 23, 1935.

33. *Statistical Abstract for the United Kingdom,* 1935, Cmd. 4801 (London, H. M. Stationery Office, 1935); *Accounts Relating to Trade and Navigation of the United Kingdom* (London, H. M. Stationery Office, January 1935).

34. *Ibid.* For the first quarter of 1935, exports to sterling bloc countries continued to increase, those to Germany rose sharply, while those to France and The Netherlands declined. Exports to India, Australia and the Union of South Africa also continued to rise. *The Economist,* May 25, 1935.

35. BRITISH EXPORTS BY VOLUME

	1929	*1932*	*1933*	*1934*
Iron and steel (million tons)	4.34	1.89	1.92	2.25
Machinery (thousand tons)	562	301	276	335
Cotton piece goods (mill. sq. yds.)	3,672	2,197	2,031	1,993
Woolen tissues (mill. sq. yds.)	108.2	53.5	61.3	68.9
Linen piece goods (mill. sq. yds.)	71.5	65.9	76.9	77.6
Private motor cars (thousands)	23.9	27.0	33.8	34.9
Coal (million tons)	60.3	38.9	39.1	39.7

The Economist, January 19, 1935.

DEPRESSED AREAS

This uneven distribution of unemployment by industries is especially serious for Great Britain because of the concentration of the depressed industries in well-defined geographical areas. Lancashire is the stronghold of the cotton industry—the West Riding of Yorkshire of the woolen industry; South Wales, Durham, Lancashire and the southwest of Scotland embrace the great coal areas; shipbuilding is concentrated in northeast England, western Scotland and North Ireland. From these areas thousands of workers have migrated during the lean post-war years to London and the South of England, where have risen the more prosperous industries producing automobiles, radios and other modern amenities.[37] Nevertheless, this heavy migration has been insufficient to correct the uneven distribution of unemployment.

UNEMPLOYMENT BY DISTRICTS[38]

% of Insured Workers, June 24, 1935

London	8.2	Northeastern	22.2
Southeastern	7.0	Northwestern	19.2
Southwestern	10.4	Scotland	20.1
Midlands	11.7	Wales	30.6
Northern Ireland	25.2		

Even after assumption by the central government of part of the local tax burden in the more depressed areas, tax assessments in districts where local relief costs are high and the ratepayers impoverished discourage the continuance, and even more the resumption, of industrial activity. During 1932 and 1933 there was a net increase of 325 factories in London and the South of England and a net decrease of 33 in the rest of Great Britain.[39] The National Government has attempted to relieve certain former coal mining and shipbuilding centers — South Wales, Durham, Cumberland and parts of Scotland — by a subsidy of £2,000,000 to be used for providing the unemployed with some activity.[40] The Commissioners for the Special Areas, who were appointed in November 1934, are empowered to provide the unemployed with allotments for subsistence agriculture or with work in clearing the slag heaps thrown up by the receding industrial tide; they are not allowed, however, to subsidize any profit-making enterprise. Because of the niggardliness of the initial sum allotted to the Commissioners, and the restrictions imposed on its expenditure, not only the Parliamentary Opposition but also Conservative members representing the depressed constituencies have charged that the government shows a defeatist attitude in accepting the hopelessness of reviving private enterprise in these former strongholds of British industry.[41]

PROSPECTS FOR THE FUTURE

Up to the present, Britain's recovery has been distinctly a domestic market boom. Of the chairmen of the "Big Five" joint-stock banks, only Reginald McKenna of the Midland Bank believes so firmly in the efficacy of cheap money that he expects British recovery to maintain itself without a sharp revival of the export trade.[42] Industrial production and the price of industrial shares on the stock market have confounded the pessimists by overcoming the setback of the first quarter of 1935, but other factors indicate that recovery is slowing down. Imports of raw materials were lower in the first six months of 1935 than in the corresponding period of 1934.[42a] Prosperity seems farthest away from the working class, especially those in depressed areas. From June 1933 to June 1934 the decrease in unemployment was 354,266; during the next twelve months it amounted to only 81,480. Although recovery may continue for some time longer, even the Chancellor of the Exchequer has admitted that the pace of reemployment cannot be "so hot" in the present phase.[43]

Several factors militate against a return of prosperity on the basis of the home market alone. Although the rise in the national debt was halted in the past financial year and the annual interest and management charges continue to decrease, tax-

36. Maxwell S. Stewart, "Paradoxes of World Recovery," *Foreign Policy Reports*, vol. X, No. 12, August 15, 1934; *Board of Trade Journal*, February 21, 1935; *Ministry of Labour Gazette*, July 1935. A large percentage of the 400,000 who have been without work for more than a year is concentrated in coal mining, shipbuilding and textile manufacturing. In certain villages of the County of Durham over 70 per cent of the male population has been unemployed more than five years. Cf. diagram in *The Economist*, June 16, 1934.

37. POPULATION CHANGES DUE TO MIGRATION

Districts	*1921-31*	*1932-33*
Southeast (including Greater London)	+615,000	+265,000
Lancashire	—154,000	—50,000
Yorkshire	—46,000	—35,000
Durham and Northumberland	—207,000	—30,000
South Wales	—240,000	—40,000

Cf. *The Economist*, March 2, 1935, citing the Registrar-General's Statistical Review of 1933.

38. *Ministry of Labour Gazette*, July 1935. Cf. diagram in *Planning* (P.E.P., London), March 26, 1935.

39. Board of Trade, *Survey of Industrial Development* (London, H. M. Stationery Office, 1934).

40. Special Areas (Developments Improvement) Act, *Public General Acts*, 25 George V, 1934, Chapter 1. The original sum was for use through March 1935. No supplementary vote has yet been asked by the government.

41. The *Report of the Commissioner for the Special Areas of England and Wales* (Mr. P. M. Stewart), Cmd. 4957 (London, H. M. Stationery Office, July 1935), emphasizes the manifold restrictions on his activities.

42. Cf. *The Times*, January 25, 1935.

42a. *The Economist*, July 20, 1935.

43. *Parliamentary Debates, House of Commons, Official Reports*, February 14, 1935, vol. 297, pp. 2212-13.

payers can expect little relief in carrying the burden of the heaviest national debt in the world.[44] There is no prospect of a major reduction in the deadweight debt total; the next conversion operation which might lower the service cost of the internal debt cannot be carried out until 1940.

While more people than ever before are employed by British industry, new employment has fallen woefully behind the population increase. The whole industrial population has increased a million since 1929; three-quarters of a million more are out of work. After the first impact a tariff is bound gradually to lose its effectiveness. In the early stages of recovery the capacity of the existing industrial equipment to absorb the increasing number of employed workers handicapped the revival of the capital goods industries.[45] The present boom in the capital industries, due in part to the poor return from investing reserves in securities, is likely to cease when the lack of plant replacement in the depression is made up.[46] New, modern plants will require less manual labor per unit output. In the increasingly mechanized automobile industry the outstanding advances in total production have offset technological unemployment, but in the contracting industries there is no such compensation. In Lancashire the cotton operatives attend six power looms instead of four. During 1934, 5 per cent more coal was cut by machinery than in 1933; miners increased the output per man-shift by half a hundredweight, so that fewer miners extracted a greater quantity of coal. Efficient iron and steel plants and generators of electricity have cut their coal consumption per unit of output.[47] An experiment with a five-day week has shown that the rise in output per hour may offset the decrease in time worked, so that shorter hours are not necessarily conducive to increased employment.[48] The difficulty experienced in breaking the "hard core" of British unemployment by ordinary industrial expansion has caused the National Government, at long last, to "consider" raising the school-leaving age from 14 to 15. Without some sweeping government measures, an unexpectedly prolonged domestic recovery, or a rapid revival of overseas trade, Great Britain is apparently faced with a phenomenon considered impossible by orthodox economists—a state of equilibrium in which all the factors of production are not employed.[49]

EFFECTS OF UNSTABLE EXCHANGES

World conditions are adverse to a recovery of Britain's export industries in the near future. Sterling itself is subject to the uncertainty which governs the monetary exchanges. Although the Exchange Equalization Account has been effective in diminishing short-term fluctuations in the external value of the pound, it has not attempted to counteract the depressing effects of lower gold prices, Continental bearish speculation, and the National Government's policy of cheap money for home industry.[50] From a high of 78 per cent of par in the spring of 1932, the gold value of sterling has fallen steadily, except for rises due to flights from the dollar or other gold currencies, to below 60 per cent of par in January 1935.[51] British commentators find the reason for the successive sharp breaks not in fundamental internal conditions nor in Britain's trade balance, but in world pessimism or Continental rumors—psychological influences foreign to Britain in origin and not subject to control by British government policy. Yet the Chancellor of the Exchequer has steadfastly refused to take steps to halt the hesitation of foreign trade resulting from unstable exchanges. The National Government believes that Britain cannot return to the gold standard unless conditions for its normal operation are restored, and unless the United States makes some definitive and liberal settlement of the war debt question, ceases to balance its international payments by gold imports amounting to more than current world production, and reverses the sterilization of its present huge gold holdings. Unless conditions are so altered, Great Britain, after returning to gold, might have to defend the pound by raising interest rates and thus choke off one factor making for domestic recovery.[52] England further fears not only that President Roosevelt may use his power to devalue the dollar 16⅔ per cent

44. THE BRITISH NATIONAL DEBT (£ million)

	1931-32	*1932-33*	*1933-34*	*1934-35*
Net Internal Debt	6,343.1	6,583.4	6,785.7	6,764.0
External Debt	1,090.8	1,060.4	1,036.5	1,036.5
Interest, Management Charges	289.5	282.2	216.3	211.7

Midland Bank Monthly Review, April-May, 1935.

45. The 463 new factories opened in 1933 absorbed only 29,500 of the 586,000 increase in employment during the year. *The Economist*, May 26, 1934.

46. Cf. "The Economic Illusion," *The Round Table* (London), March 1935, p. 237.

47. Cf. *The Times*, leading article, April 1, 1935; *ibid.*, citing Annual Statistical Summary of the Department of Mines, April 16, 1935; *The Economist*, June 1, 1935.

48. The experiment was carried out by the Boots Pure Drug Company. Cf. *The Economist*, November 24, 1934.

49. Cf. G. D. H. Cole, *Studies in World Economics* (London, Macmillan, 1934), p. 38.

50. *The Economist*, March 2, 1935; cf. F.-L. N. "La Politique budgétaire britannique," *L'Europe Nouvelle*, April 27, 1935; and H. D. Henderson in *Lloyd's Bank Monthly Review*, quoted in *New York Times*, July 1, 1935.

51. Cf. graph, p. 152.

52. Cf. Speech of Lord Luke to the International Chamber of Commerce, *New York Times*, June 26, 1935; *The Economist*, leading article, May 18, 1935.

below its present level but also that Germany may attempt to capture foreign markets by drastic devaluation of the mark after France, Great Britain and the United States have reached some stabilization agreement.[53]

While unstable exchanges have hindered trade in general, increasing tariff and quota restrictions abroad have directly cut off British export markets. All countries are still seeking a way out of the depression through economic nationalism; even since January 1934 over a dozen countries have made important upward tariff revisions affecting British goods.[54] The National Government's trade agreements policy appears too weak to counterbalance the fear of other nations that rival powers will undersell them in time of peace and cut off their supplies in another war.

CONCLUSIONS

Observers of the actual recovery which has taken place in Great Britain since 1931 do not credit it all to the measures of the National Government.[55] They contend that, without the extensive system of social insurance in force long before the National Government took office, either purchasing power would have fallen disastrously during the depression or the government, if it had provided relief, would have been unable to achieve a balanced budget except by even greater increases of taxation than those made by Mr. Snowden. Most authorities are convinced that from 1925 to 1931, when the pre-war parity of $4.86 to the pound was restored, the British bore an intolerable burden in the competition for overseas markets because of the necessity of lowering prices when taxes, interest rates and wages remained high; and that the departure from gold was of vital importance in that it gave a direct fillip to the export trade, permitted lower interest rates and taxes, and saved Britain from undergoing the deflation pursued to date by the gold standard countries. They point out that in spite of this "cross of gold" the first National Government made frantic efforts to remain on the gold standard.[56]

Moreover, the fact that rising living costs have not followed the departure from gold is due not to British government policies but to fortuitous external circumstances. Prices in gold standard countries have fallen steadily,[57] and all the important suppliers of foodstuffs to Great Britain except the Argentine have devalued their currency equally with or more than the pound sterling. The creation of the "sterling bloc" and the partial success of the foreign trade agreements are thus attributed less to the skill and foresight of the National Government than to the preponderant importance of the British market for agricultural exporting countries.

Authorities are not united on what policies the National Government should adopt in order to guarantee the permanence of recovery or the achievement of prosperity. Among farmers there has developed opposition to the regimentation of the marketing schemes; Lord Astor has been leading a campaign for a tariff on foreign meats rather than the proposed levy system, because the latter would require the registration of all producers and a strict accounting of their sales. Some interests, especially among Liberals, would scrap most of the present schemes for artificial maintenance of remunerative prices; they oppose the tendency which they discern in marketing schemes — already demonstrated in the case of hops — toward setting up a producers' monopoly which will inevitably fix prices above their natural level. On the same ground they oppose the cartelization of industry which, they fear, would follow from present efforts to provide "self-government for industry"; they draw a distinction between the necessary rationalization of the over-equipped textile and steel trades and the grant of semi-monopolistic opportunities to expanding industries.[58]

On the other hand, Lord Melchett has introduced into the House of Lords an "Enabling Bill" by the terms of which a majority in any industry would be given statutory support in imposing its

53. Cf. "Augur," *New York Times*, Section IV, June 2, 1935.

54. Cf. statement of the President of the Board of Trade, *Parliamentary Debates, House of Commons, Official Reports*, March 12, 1935, vol. 299, pp. 176-7. The recent trade and clearing agreements with Italy guarantee Welsh coal and other British exports only 80 per cent of 1934 sales to Italy. "Provisional Agreement . . . regulating Imports from the United Kingdom into Italy," *Treaty Series* No. 14 (London, H. M. Stationery Office, March 1935); "Exchange of Notes . . . regarding Trade and Payments," *Italy* No. 1, Cmd. 4888 (London, H. M. Stationery Office, April 1935).

55. For an account and criticism of these measures, cf. Koren, "Britain's Economic Recovery: Policies of the National Government," cited.

56. Other economists deny the virtues of depreciation and make much of the fact that the upturn in Britain took place when the pound was appreciating in terms of the dollar. They contend that without the unchecked depreciation of sterling the United States would not have devalued the dollar; and blame these devaluations for the continued fall of price levels in the gold bloc, the drop in world trade, and the consequent loss of exports to Great Britain. They therefore condemn the National Government for its departure from gold, or at least for failure to restore the gold standard immediately at approximately $4.50 to the pound.

57. WHOLESALE PRICES AT END OF JANUARY*

	1932	*1933*	*1934*	*1935*
Great Britain	108.3	101.3	108.3	110.3
France	93.6	88.1	87.2	79.1

*Based on September 18, 1931.
The Economist, February 16, 1935.

58. Cf. *The Economist*, February 2 and April 6, 1935.

organization plan on the minority of rival producers; other left-wing Conservative advocates of planning under capitalism forced a full dress debate in the House of Commons on a motion to set up a Departmental Committee to consider industrial reorganization.[59] The P.E.P. (Political and Economic Planning) Group has not only drawn up a detailed "Self-Government for Industry Bill," but advocates a thorough study of British economy beginning with the population problem, the planning of British industry and trade in order to encourage the export of capital goods and high-priced finished goods, and reorganization of the distribution as well as production stage of British agriculture. According to the Labour party's program, public ownership and control of key industries and services—such as banks and credit, water, coal, gas, electricity, agriculture, and iron and steel—must be followed by their coordination in national and local plants of production and distribution.[60]

The immediate demand of all groups, however, is that the government adopt some large scale policy which may substantially reduce the persistent figure of over 2,000,000 unemployed. Mr. J. M. Keynes' advocacy of a large loan expenditure on public works is gaining favor. *The Economist* and the *New Statesman and Nation* have increasingly opposed the government's "do-nothing-dangerous" policy. Popular enthusiasm regarding Lloyd George's campaign for a public works scheme forced the government to study his proposals in detail.[62] Viscount Snowden, who put through the "axe and tax" budget of September 1931, has reversed his opposition to public works and favors the Lloyd George "new deal."[63] Under the changed conditions of a balanced budget, plentiful idle money, and rising profits and savings, he believes that the government could profitably finance at low interest rates a program costing up to £400 million spread over two years. *The Times* proposes a public works program along four lines: an extension of the present housing policy, road building, land settlement, and civil aviation.[64] *The Times* also expressed itself favorably on two P.E.P. *Reports*[65] which planned the employment of 600,000 adults to replace men who would henceforth be carried by an extension of the old age pension system and children whose education was to be continued to 15 and on part time to 18 years of age.[66] The Labour party officially endorses raising the school leaving age to 15, extending old age pensions, and a "bold programme of public development," including large scale electrification, road building, land drainage and slum clearing.[67] The Government's own Commissioner for the Special Areas favors raising the school age and public works expenditure as a national policy.[67a]

The Chancellor of the Exchequer has admitted that the pace of re-employment is bound to slow down now that the tariff has had its first effects, and that the next stage of recovery must bring improvement in the condition of the export industries. He believes, however, that prosperity will increase by a continuation of the government's present policies. He refuses to give up the tariff and, although insistent on the benefits of cheap money, maintains that public works are "always disappointing" as a means of increasing employment;[68] the Cabinet changes of June 1935 do not foreshadow a new economic policy.[69] The National Government is justified in laying some of the blame for the stagnation of British exports on the lack of world monetary equilibrium, the burden of international debts, and the increasing economic nationalism of other states; it is right in contending that it was dealt a poor hand, and that without world recovery Britain cannot attain its former economic level. Nevertheless, the National Government helps its cause but little by reminding the British public of the 1931 disaster and the virtues of its tariff and cheap money policy, and by exhorting farmers to follow Major Elliot blindly. It must recognize that its own policies have increased the instability of the exchanges and the barriers to international trade, and that at the impending general election it will be judged not on its success in turning crisis into recovery but on its program for dealing with the still unsolved problem of how to restore British prosperity.[70]

59. *Parliamentary Debates, House of Commons, Official Reports*, April 3, 1935, vol. 300, pp. 377-471.

60. *For Socialism and Peace, The Labour Party's Programme of Action* (London, The Labour Party, 1934), pp. 14-28; Hugh Dalton, *Practical Socialism for Britain* (London, Routledge, 1935).

62. In July, after Mr. Baldwin's government had rejected his proposals, Lloyd George published his scheme, *Organizing Prosperity* (London, Ivor Nicholson & Watson, 1935).

63. Viscount Snowden, *Mr. Lloyd George's 'New Deal'* (London, Ivor Nicholson and Watson, 1935).

64. *The Times*, leading article, March 23, 1935.

65. "The Entrance to Industry" and "The Exit from Industry," London, P.E.P., May 1935.

66. *The Times*, leading article, May 11, 1935.

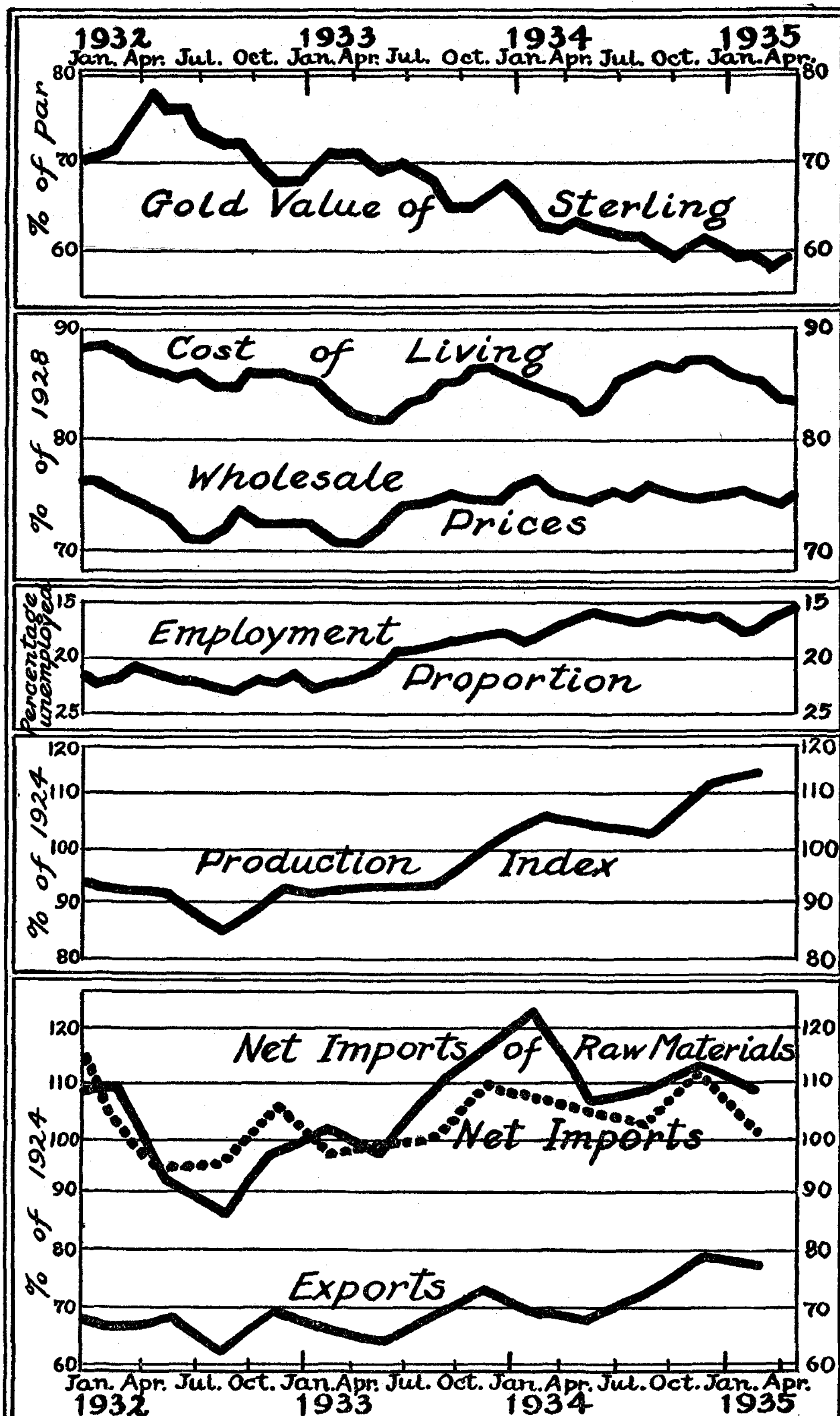
67. Cf. *For Socialism and Peace*, cited.

67a. P. M. Stewart, *Report*, cited.

68. Cf. speech of the Chancellor of the Exchequer, *Parliamentary Debates, House of Commons, Official Reports*, February 14, 1935, vol. 297, pp. 2205-16; and at the British Bankers' Association dinner, *The Times*, May 17, 1935. The government's recent announcement that it will guarantee a loan of up to £40,000,000 for improvement and electrification of transport in the London area is not primarily aimed at decreasing unemployment. *Ibid.*, June 6, 22, 1935.

69. Cf. Mr. Baldwin's speech in the House of Commons, *ibid.*, July 10, 1935.

70. Cf. *The Economist*, "Changes in Downing Street," June 15, 1935.



(Worked from monthly average exchange rates on New York until February 1933, and on Paris thereafter.)

(Ministry of Labour index.)

(Board of Trade index.)

(Monthly percentage — inverted — of insured persons unemployed.)

(Board of Trade quarterly index of production, based on 1930 — not 1924 as indicated.)

(Net imports of all kinds, net imports of raw materials and total British exports, re-valued at 1930 prices and expressed as percentages of the corresponding figures for the four quarters of 1924.)

Source: Midland Bank, *Monthly Review* (London), February-March, May-June 1935.